

Message Text

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PAGE 01 CANBER 02409 310926Z

ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-08 FRB-01 INR-10 IO-14 NEA-10 NSAE-00 USIA-15

OPIC-06 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00

OMB-01 SS-15 PA-02 /120 W

-----055553 311857Z /70

R 310628Z MAR 78

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 2847

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

AMEMBASSY PARIS

AMCONSUL PERTH

AMCONSUL SYDNEY

UNCLAS CANBERRA 2409

USOECD

E.O. 11652: N/A

TAGS: EALR, EFIN, AS

SUBJECT: RESERVE BANK EASES STATUTORY RESERVE DEPOSIT (RSD) RATIO

TO PROVIDE LIQUIDITY DURING TAX PAYMENT PERIOD

REF: (A) SYDNEY A-8 (B) 77 CANBERRA 06243

1. GOVERNOR OF RESERVE BANK, KNIGHT, ANNOUNCED ON MARCH 30 THAT EFFECTIVE APRIL 3 SRD RATION WILL BE CUT FROM 6.5 PERCENT TO 5.5 PERCENT. SRD RATIO IS PROPORTION OF THEIR DEPOSITS TRADING BANKS MUST LODGE IN FROZEN ACCOUNTS WITH RESERVE BANK. LAST MOVEMENT IN SRD RATION TAKEN ON SEPTEMBER 6, 1977 WHEN RATIO CUT FROM 8 PERCENT TO 6.5 PERCENT. MOVE EXPECTED FREE-UP SOME A DOLS 185 MILLION WHICH WILL BE USED BY BANKS TO HELP COUNTER SEASONAL SQUEEZE DUE TO REQUIRED LAST QUARTER PAYMENTS OF COROPRATE INCOME TAXES AND FULL YEAR PAYMENTS OF NON-PAY-AS-YOU-EARN INCOME TAXES (PROVISIONAL TAXES). GOVERNOR KNIGHT MADE IT CLEAR THAT REDUCT-
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PAGE 02 CANBER 02409 310926Z

ION DID NOT RPT NOT SIGNAL CHANGE IN MONETARY AND BANKING POLICY.

2. ACTION BY RESERVE BANK IS SEEN IN SOME QUARTERS AS SOMEWHAT OF A REVERSAL OF SOME OF ANNOUNCED EARLIER INTENTIONS CAUSED BY COURSE OF EVENTS AND PRESSURE FROM CANBERRA. IT UNDERSTOOD THAT LATE LAST YEAR RESERVE BANK OFFICIALS WERE PRIVATELY WARNING MONEY DEALERS NOT TO RELY ON BANK FOR ITS SUPPORT BY WAY OF PURCHASES OF

COMMERCIAL BILLS. IT ALSO INDICATED IT WOULD NOT BUY BONDS DATED LONGER THAN 12 MONTHS TO MATURITY. DEALERS IGNORED WARNING, PERHAPS BELIEVING BANK NEVER REALLY MEANT TO CARRY OUT THREATS, AND MOVED HEAVILY INTO LONGER SECURITIES IN WAKE OF GENTLE FALL IN OFFICIAL INTEREST RATES AND AS A RESULT WERE SHORT IN TREASURY NOTES. SIGNS OF CANBERRA PRESSURE TO RELIEVE SITUATION WERE EVIDENT IN TREASURER HOWARD'S SPEECH BEFORE FINANCIAL REVIEW FORUM (REF A) WHEN HE STATED THAT RESERVE BANK WAS CLOSELY MONITORING SITUATION IN MONEY MARKET "WITH A VIEW TO ASSISTING THE MARKET IN THE ORDERLY NEGOTIATION OF THE RUNDOWN." IN ADDITION, HOWARD TOLD FORUM THAT RESERVE BANK HAD LET TRADING BANKS KNOW THAT THEY COULD RAISE THEIR RATES OF NEW LENDING IN RESPONSE TO GENUINE DEMAND BEYOND THE LEVELS CURRENTLY PERMITTED. HOWARD CLEARLY SPELLED OUT IN HIS SPEECH THAT PRIME MINISTER AND HE HAD BOTH INDICATED A DETERMINATION OF THE GOVERNMENT TO AVOID ANY SUGGESTION OF A CREDIT SQUEEZE DURING TAX PAYING PERIOD.

3. AS A DOLS 185 MILLION RELEASE MAY WELL NOT BE ENOUGH TO EASE STRAIN CAUSED BY A DOLS 4.5 BILLION IN TAXES OUTSTANDING, GOVERNMENT MAY HAVE TO MAKE FURTHER CUTS IN SRD RATIO ANE OR MOVE MORE HEAVILY INTO THE COMMERCIAL BILL MARKET.

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